

Interim Results for the six months to 30 September 2001

Glas Cymru reports strong financial performance in first half year

Glas Cymru Cyfyngedig today announced its first set of financial results. The Company completed the acquisition of Dŵr Cymru Welsh Water on 11 May this year and its first half results show a solid financial and operational performance.

Highlights for the period to 30 September include:

- Glas Cymru's ownership brings long term stability to the business and secures Welsh Water's access to the financial markets to raise the funds required to finance its investment programme.
- Underlying profit of £11.8 million, all of which will be retained in the business for the benefit of customers.
- Earnings before interest, tax, depreciation and amortisation of £95 million (3% ahead of the forecast for the equivalent period in the Information Memorandum issued at the time of the bond issue in May).
- Continued high levels of operational and customer service performance overall, with particular improvements in the level of interruptions to water supplies, properties suffering from low water pressure and compliance with environmental standards at wastewater treatment works.
- Management action taken to achieve further improvements in customer service.
- £1,175 million investment programme (for the 5 years to 31 March 2005), delivering important customer service and environmental improvements.

Financial reserves (Regulatory Asset Value less net debt) are now targeted to reach £400 million by 31 March 2005, compared with a forecast of £340 million in the Information Memorandum.

With these half year results, Glas Cymru remains on track to deliver the targeted customer bill rebates of £11 million in 2003 and £12 million in 2004 that were announced at the first Annual General Meeting in July.

Earlier this month, Glas Cymru also announced a £41 million reinvestment of targeted savings on Welsh Water's £1,175 million capital investment programme. This additional investment will further reduce the risk of sewage flooding of homes, improve environmental performance of wastewater treatment works, and augment water resources for economic development in Mid and South Ceredigion.

These planned customer bill rebates and the additional investment demonstrate that Welsh Water's new ownership structure is delivering real benefits to customers.

Glas Cymru chairman Lord Burns said: "These are good results in a period of massive change for the business. They show a financial performance which is stronger than was forecast at the time of the bond issue in May this year.

"Glas Cymru's focus is to manage Welsh Water so as to provide a better value service to customers. All profits are retained within the business, reinvested for the benefit of customers and the environment or returned to customers through customer bill rebates. As a result of the strong financial performance to date, we remain on track to deliver the planned £23 million of rebates to customers by April 2005."

Operational performance during the period was satisfactory overall and showed:

- Improvements in the number of unplanned interruptions to supplies
- A reduction in the number of properties suffering from low water pressure
- Improved compliance with environmental standards at wastewater treatment works.

Some investment projects and operational activities were temporarily affected by land access restrictions during the foot and mouth crisis. Action has been taken to bring the water mains replacement and refurbishment programme back on schedule.

Additional investment will tackle sewage flooding problems and reduce the risk of a repeat of the taste problems some customers experienced because of last summer's unusual weather.

During the period, additional staff were recruited to the call centre to deal with a significant increase in customer contacts following the introduction of a new debt management programme last year.

Lord Burns added: "As part of the Glas Cymru transaction, Welsh Water entered into competitive four year contracts with United Utilities (for the day to day operation of our water and waste water assets) and with Thames Water (for the management of billing and customer contact activities). The new arrangements are working well, and Welsh Water and its customers are getting the benefits of better cost efficiency and improving levels of service.

"It is to the enormous credit of all the people who work to deliver water services to Welsh Water's customers that such high overall levels of service have been maintained during a period of considerable change."

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Notes for editors

1. Glas Cymru was formed in April 2000 for the sole purpose of acquiring Welsh Water. It is a company limited by guarantee, which makes Glas Cymru the same as any other company except for one important difference – it does not have shareholders. This means that all financial surpluses are retained within the business for the benefit of Welsh Water’s customers. It also means that Welsh Water’s only concern is its responsibilities as a water and sewerage company. Under Glas Cymru’s ownership Welsh Water cannot diversify into new and riskier business activities.
2. The water industry everywhere is very capital intensive. The cost of financing Welsh Water’s assets is its single biggest cost and already absorbs nearly a third of its revenues. With continuing high levels of investment to improve water supply and environmental quality – Welsh Water will invest a further £1,175 million over the current five year regulatory period to March 2005 – the cost of financing assets will continue to rise.
3. Glas Cymru has cut the cost of financing Welsh Water’s assets. In May this year Glas Cymru completed one of the largest sterling bond issues ever seen in the UK to finance the change in ownership and to fund Welsh Water’s continuing capital investment programme. The bond issue raised £1,910 million and was 70% over-subscribed. By funding Welsh Water’s assets with long term, low risk bonds, Glas Cymru has cut Welsh Water’s annual financing costs by around a quarter. This is a very significant saving and is worth some £50 million a year. In the first instance these savings will be used to build up financial reserves and protect the company and customers from unforeseen circumstances, such as a major drought, and to also improve Welsh Water’s credit quality so that it can reduce its financing costs still further in the years ahead. Once the financial reserves are well established , part of the annual savings can be then be used to pay customer bill rebates. At its first Annual General Meeting in July this year, Glas Cymru announced a £23m bill rebate target for Welsh Water customers.
4. Welsh Water is the regulated company that provides water and sewerage services to over three million people living and working in Wales as well as some adjoining parts of England. In all, Welsh Water has 1.2 million household customers and over 100,000 business customers. Welsh Water was a subsidiary of Hyder plc which was acquired by Western Power Distribution following a protracted take-over battle last year. Glas Cymru secured ownership of Welsh Water on 11 May this year.
5. Glas Cymru is a company limited by guarantee and has members instead of shareholders. Members do not receive dividends and do not have any other financial interest in the company. Members carry out the normal corporate governance role of shareholders at Annual General Meetings and, alongside bond investors, industry regulators and the National Assembly, they have a key role in scrutinising Welsh Water’s performance against financial and other targets as well as water industry benchmarks for quality of service and cost efficiency. The Members of Glas Cymru hold an important position in supporting the Company’s primary objective of providing high quality water and sewerage services at least cost to the communities served by Welsh Water.